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INITIAL ENVIRONMENTAL EXAMINATION

Amendment #2 to Asia 11-105 Indonesia IEE for Public International Organization (PIO) Grant to World Bank Multi-Donor Trust Fund for Trade and Investment Climate (MDFTIC)

PROGRAM/ACTIVITY DATA:

Country Code-AO: Economic Growth

Country: Indonesia

Program: Public International Organization (PIO) Grant to World Bank Multi-Donor Trust Fund for Trade and Investment Climate (MDFTIC)

Funding Begins: September 30, 2011: **Funding Ends:** January 31, 2016

LOP Amount: \$3,000,000

IEE Prepared by:

ENV:

[Signature]
Irene Herawati

Date:

11/01/2013

IEE Amendment (Y/N): Y

Current Date: November 1, 2013

If 'YES', Number and Date of Original IEE: Asia 11-105, IEE dated July 13, 2011, Asia 12-190, Amendment #1 dated September 10, 2012

ENVIRONMENTAL ACTION RECOMMENDED:

Categorical Exclusion

PURPOSE AND SCOPE OF AMENDMENT:

Amendment #2: The purpose of this amendment is to:

1. Extend the LOP duration from FY14 to January 31, 2016

The scope and nature of all activities as approved in the original IEE (Asia 11-105) remain the same.

SUMMARY OF FINDINGS:

The PIO grant to World Bank Multi-donor Trust Fund for Trade and Investment (MDFTIC) is recommended for a Categorical Exclusion. A Categorical Exclusion is in accordance with 22 CFR 216.2(c)(2)(i) for education, technical assistance and training activities, 22 CFR 216.2(c)(2)(iii) for analysis, studies, academic or research workshops and meeting activities, 22 CFR 216.2(c)(v) for documents and information transfers, and 22 CFR 216.2(xiv) for studies,

projects or programs intended to develop the capability of recipient countries to engage in development planning.

1. BACKGROUND AND ACTIVITY DESCRIPTION

1.1 Background

According to the World Bank's *Doing Business 2009*, Indonesia ranks 129 overall out of 181 countries in terms of the ease of doing business. It also ranks 171 for starting a business, 157 for employing workers, 140 for enforcing contracts, and 116 for paying taxes. In comparison with some of its neighbors, Indonesia is lagging. In addition, according to a recent survey of over 12,000 businesses in 243 districts across Indonesia, a number of difficulties businesses face were reported, including a finding that approximately 85 percent of regulations are problematic (in terms of legal compliance, substance, or principle) leading to inconsistent interpretation and implementation.

Laws, regulations, and the institutions that enforce them create investor confidence, and allow markets to be free, fair, and efficient—basic ingredients of a competitive economy. Given the process of decentralization ongoing since 2001, most regulations impacting business are interpreted or implemented at local levels and most operational issues (e.g., licensing and registration) must be addressed with local governments or institutions.

Thus, USAID/Indonesia believes that one of ways to help Indonesia in addressing these challenges is through the World Bank's Multi-Donor Trust Fund for Trade and Investment Climate. The MDFTIC was started by the World Bank in 2007 to help address a request by the Ministry of Trade (MoT) to support its capacity building efforts and harmonize donor assistance; and a request from the Coordinating Ministry of Economic Affairs, MoT and Bappenas for capacity building and technical assistance to improve the investment climate.

The MDFTIC consists of a Trade component and an Investment Climate (IC) component. The Trade Component activities center around setting up teams of specialists to improve MoT's institutional structure, improving Human Resource training management to increase skill of staff, and providing policy advisory work so that the MoT can take more informed policy decisions. The IC Component activities center around capacity building for better policy coordination, technical assistance on regulatory reform and access to finance to increase reform impact, and providing policy advisory work for more informed policy decisions on IC.

1.2 Activity Description

The overall development objective of the new MDFTIC activity is to increase support the Government of Indonesia through capacity building efforts, providing technical assistance, and harmonizing donor assistance. The project will accomplish this through:

1. Setting up teams of specialists to improve Ministry of Trade's (MoT) institutional structure

2. Provision of technical assistance and capacity building for MoT to deliver core services, establish specialized teams, increase staff skills and improve Human Resource management and development
3. Provide support for organizational reform
4. Provide studies to facilitate informed policy decisions in international and domestic trade.
5. Capacity building for better policy coordination, technical assistance on regulatory reform and access to finance to increase reform impact, and providing policy advisory work for more informed policy decisions on Investment Climate.
6. Provide best practice advice on economic regulatory reform, and trade and investment facilitation; advice on improving financial sector structure and regulation; advice on harmonizing tax regulation across the financial sector and improving access to finance; and analytical and advisory services.
7. Provide technical assistance to support investment policy formulation and investor problem solving, support for trade and investment facilitation and the National Single Window, reform of state-owned enterprises, and an improved framework for a stronger, more diversified and inclusive financial sector.

2. EVALUATION OF ACTIVITIES FOR ENVIRONMENTAL IMPACT POTENTIAL, RECOMMENDED THRESHOLD DECISIONS AND MITIGATION ACTIONS (INCLUDING MONITORING AND EVALUATION)

The PIO grant to World Bank Multi Donor Trust Fund for Trade and Investment Climate will fund activities relating to administrative, policy and regulatory reforms, technical assistance, training, academic workshops and meetings that do not include laboratory work, field studies or involve actions that directly affect the natural or physical environment. Hence, the program activities are not expected to have adverse impacts on natural or physical environment and are recommended for a Categorical Exclusion in accordance with 22 CFR 216.2(c) (2) (i), 22 CFR 216.2(c) (2) (iii), 22 CFR 216.2(c) (2) (v) and 22 CFR 216.2(c) (2) (xiv). The overall objective of the MDFTIC is to increase the capacity of Government of Indonesia officials to conduct policy work and provide technical assistance.

3. RECOMMENDED ENVIRONMENTAL ACTION

3.1 Recommended IEE Determinations

A **Categorical Exclusion** is recommended for the PIO Grant to World Bank Multi-Donor Trust Fund for Trade and Investment Climate– capacity building activities to develop and provide technical assistance to Government of Indonesia officials under a 22 CFR 216.2(c) (2) (i) for training and technical assistance activities, 22 CFR 216.2(c) (2) (iii) for analysis, studies, academic workshops and meeting activities, 22 CFR 216.2(c) (2) (v) for document and information transfer and 22 CFR 216.2(c) (2) (xiv) for studies and capacity building activities; to the extent that they do not entail laboratory work, field studies or other actions that have direct or indirect impact on the natural and physical environment.

3.2 Mitigation, Monitoring and Evaluation: N/A

4. REVISIONS

Pursuant to 22CFR216.3(a)(9), if new information becomes available which indicates that activities to be funded by the Program might be “major” and the Program’s effect “significant,” this threshold decision will be reviewed and revised by the cognizant operating unit and submitted to Bureau Environmental Officer for approval and, if appropriate, an Environmental Assessment will be prepared.

APPROVAL OF ENVIRONMENTAL ACTION RECOMMENDED

By signing below, you approve Amendment #2 to the Indonesia IEE for the Public International Organization (PIO) Grant to World Bank Multi-Donor Trust fund for Trade and Investment Climate (MDFTIC).

MISSION ENVIRONMENTAL OFFICER CLEARANCE:

MEO: J. Ashley Netherton Date: 11/6/2013
J. Ashley Netherton
USAID/Indonesia – Mission Environmental Officer

ADDITIONAL CLEARANCE:

ENV: John Hansen Date: 11/8/13
John Hansen
USAID/Indonesia – Director, Environment Office

REA: concured by email Date: Nov 5, 2013
Aaron Brownell
USAID/RDMA – Regional Environment Advisor, South East Asia and Pacific

RLA: Eric Davis Date: 11/12/13
Eric Davis
USAID/Indonesia – Regional Legal Advisor

DDIR: Derrick Brown Date: 11/12/13
Derrick Brown
USAID/Indonesia – Deputy Mission Director

DECISION OF USAID/INDONESIA MISSION DIRECTOR:

DIR: for Andrew B. Sisson Date: 11/12/13
for Andrew B. Sisson
USAID/Indonesia – Mission Director

Approved: ☒

Disapproved: ☐

DECISION OF THE AME BUREAU ENVIRONMENTAL OFFICER:

By signing below, you approve Amendment #2 to the Indonesia IEE for the Public International Organization (PIO) Grant to World Bank Multi-Donor Trust fund for Trade and Investment Climate (MDFTIC).

AME: John O. Wilson Date: Nov 13, 2013
John O. Wilson
AME Bureau Environmental Officer

Cc: Project File
MEO Tracking System
OAA
Mary Melnyk